

DESKTOP COMPUTER DISTRIBUTION CHANNELS

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Carp, Jerry

AUTHOR

Desktop Computer Distribution Channels. 2/80

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Headquarters

2471 East Bayshore Road
Suite 600
Palo Alto, California 94303
(415) 493-1600
Telex 171407

Los Angeles

4676 Admiralty Way
#401 C
Marina Del Rey, California 90267
(213) 823-1230

UNITED KINGDOM

INPUT, Ltd.
Airwork House (4th Floor)
35 Piccadilly
London, W.1.
England
01-439-4442
Telex 269776

JAPAN

INPUT Japan
Suite 1106
7-7-26 Nishi-Shinjuku
Tokyo
Japan 160
(03) 371-3082

AFFILIATES

Australia

Infocom Australia
Highland Centre, 7-9 Merriwa St.,
P.O. Box 110,
Gordon N.S.W. 2072
(02) 498-8199
Telex AA 24434

Italy

PGP Sistema SRL
20127 Milano
Via Soperga 36
Italy
Milan 284-2850

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X-PRO
812

Planning Services for Management

DESKTOP COMPUTER
DISTRIBUTION CHANNELS

Prepared For:

IBM

GENERAL BUSINESS GROUP

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DESKTOP COMPUTER DISTRIBUTION CHANNELS

ABSTRACT

This custom study explores the relationships between the computer retailers, distributors and manufacturers. Thirty-two (32) interviews were conducted across a spectrum of sales organizations such as independent retailers, small store groups, franchise stores, independent distributors, franchise distributors and mass merchandisers. A major part of the study discusses the important issues for these outlets to consider before accepting a new product line for distribution and sale. Other topics covered are unit sales, revenue distribution by customer type, marketing plans and expansion plans.

DESKTOP COMPUTER
DISTRIBUTION CHANNELS

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DESKTOP COMPUTER DISTRIBUTION CHANNELS

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I INTRODUCTION

I INTRODUCTION

- This report is based on the results of research work sponsored by the General Business Group of IBM.
- The data were collected during the last quarter of 1980.
- The material was presented orally to IBM in December 1980 at Boca Raton, Florida.
- The presentation material constitutes the bulk of this report.

A. PURPOSE

- The purpose of the study was:
 - To determine some of the important business characteristics of computer distributors and computer retailers.
 - To examine the relationship between the retailers and their distributors.
 - To explore some of the attitudes of computer distributors and computer retailers toward the acceptance of a new product line.

B. SCOPE

- Where appropriate, the answers to the survey were limited to systems selling in the \$1,000-6,000 price range.
 - This price range was primarily for hardware and any software that was included in the base price.
- Research was limited by the client to specific types of distributors and retailers.

C. METHODOLOGY

- A total of 31 interviews were conducted, as follows:
 - Forty percent on-site, 60% by telephone.
 - Eleven independent retailers.
 - Five small store groups.
 - Three franchised retailers.
 - Ten independent distributors.
 - One franchise headquarters.
 - One mass merchandiser.
- IBM was never identified.
- INPUT was identified as a market research firm.

II EXECUTIVE SUMMARY

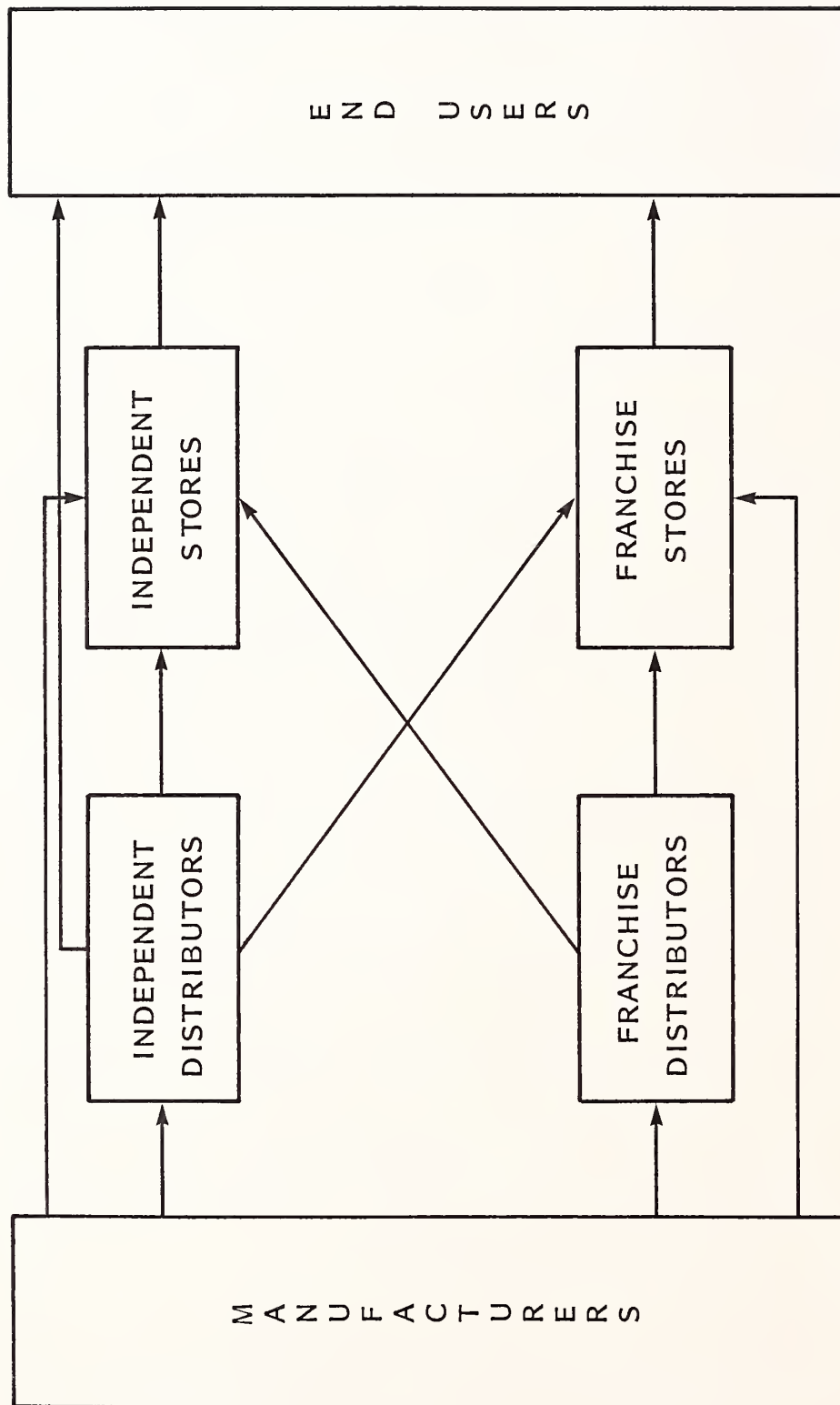
II EXECUTIVE SUMMARY

A. KEY CONCLUSIONS

- Products move from the manufacturers to the end users along many paths, as shown in Exhibit II-1.
 - Retailers buy from whomever will give them the best price, usually the manufacturer.
 - Manufacturers' minimum order quantities are not high enough to preclude the retailer from purchasing directly from the manufacturer.
 - Franchised retailers will tend to buy from the franchise distributor because the price is best along that channel.
- The pricing structure along the normal channels is not well organized.
 - There is insufficient differential between the system-manufacturer-to-distributor-price and the system-manufacturer-to-retailer price in order to encourage the distributor.
 - Some companies, notably Texas Instruments and Apple Computer (when they used a two-tier distribution arrangement), had one price for all resellers.

EXHIBIT II-1

CHANNELS OF DISTRIBUTION



- The price differential in the peripherals market is sufficient to support the distributor, and that is precisely where the distributor is most active.
- Many distributors specializing in personal computers are new and claim to be initiating retailer support programs as part of their new business strategies.
 - Retailers, however, feel that unless quick delivery is required, they would prefer dealing directly with the manufacturer because they can get a better price and, at this point in time, better support.
- Large distributors of terminals are moving into the personal and small computer area.
 - Usually they are larger and more financially sound than the new computer distributors.
 - Their customers are the larger businesses.
 - They provide very quick delivery, service, good prices and flexible financing.
 - They will attempt to continue to provide these attributes while supplying small computers to their business customers.
- Retailers feel that their primary customers in the next few years will be small businesses and education.
 - Some retailers consider large businesses in their area good potential customers also.
- Retailers especially need good product training, training in selling to businesses and general sales training.

- Distributors and retailers would welcome a strong new entry into the personal computer marketplace.
- A strong new entry means:
 - A state-of-the-art product line that will enable a retailer to expand the customer's equipment base over the years without the customer feeling that he was being led on by the proverbial carrot.
 - A pricing structure that will permit creative selling.
 - Solid product and service training.
 - Availability of parts, manuals and accurate hardware and software documentation.
 - Clear directions as to the market niches for the product.
- There seemed to be minimal concern for currently carried product lines that might be affected by the new entry.
 - The primary desire was for a well-known manufacturer who would provide solid hardware and software along with field support within an equitable pricing structure.

B. RECOMMENDATIONS

- Provide a modular, expandable product line.

- Modularity is preferable to the single box concept because it is easier to maintain and less expensive to provide loaners when the system needs maintenance.
- Expandability is necessary so that the retailer can continually provide additional hardware at minimal cost to fit an ever expanding applications requirement.
- Make available introductory end user applications software, but recognize that many individuals and software companies will be eager to provide applications for the "new IBM system."
 - Be prepared to support them by providing clear operating system interface guides, application development tools and perhaps some procedure for evaluating or "authorizing" the outstanding application programs.
- Qualify retailers and distributors depending upon the distribution channels chosen and provide extensive training in all areas, including how to sell.
- Support material in the sales, systems and service areas are an especially important aspect of a new product's promotion to be carried out by independent sales organizations.
 - The documentation must precede initial product delivery, must be accurate and updated regularly, must be easily understood and relatively free of industry jargon and neologisms.
- Allow internal and external competition among the various distribution channels. The marketplace will settle down into patterns within a short while.
 - Retailers are willing to compete with IBM stores. IBM salespeople should also be allowed to sell products in this marketplace at this time.

- IBM has the opportunity to set the pace for the industry. It is not the time to give mixed signals to the selling community.
 - If IBM chooses to sell via the distributor-retailer-end user channel, IBM should do it very strongly, providing the financial incentives and support required.
 - Both distributors and retailers will appreciate the solid framework, and other manufacturers will follow the outline.

III ESTABLISHMENT CHARACTERISTICS

III ESTABLISHMENT CHARACTERISTICS

A. GEOGRAPHIC DISTRIBUTION

- The 21 retailers and 11 distributors that were interviewed for this study were geographically distributed along the east coast, the north central region and the west coast.

B. FACILITY LOCATION

- Facility location is of less importance to distributors than to retailers.
 - Most of the retailers (13 out of 21) were located at street level in independent stores.
 - Two were located in a mini mall or strip shopping center.
 - Two were found in office buildings but at street level, and one used a warehouse because he was primarily a mail order house with a small retail shop.

C. YEARS IN BUSINESS

- Most of the retailers have been in business for four years or less, as shown in Exhibit III-1.
 - Those retailers at the upper end of the age range (one to 32 years) were selling other products such as audio equipment or cameras and have recently taken computers as a new line.
- Similarly, the distributors who have been in business more than five years are primarily terminal distributors who are beginning to take on computer product lines.

D. FLOOR SPACE ALLOCATION

- Floor layout is of primary concern in a retail situation, but of minor importance to a distributor.
- There were no significant differences by type of retailers with respect to how the space was allocated.
 - Both Computerland stores were about the same size and allocated space similarly. Computerland headquarters provides site selection and store planning for their franchisees.
- Only nine retailers provided total floor space figures, but most provided the percentage of total space allocated to the various functions.
 - Total space from nine retailers ranged from 2,000-6,000 square feet.
 - The mass merchandiser's display space ranged from 4-20 square feet.

EXHIBIT III-1

YEARS IN BUSINESS

- RETAILERS

- RANGE: 1-32 YEARS
- MEDIAN: 3 YEARS
- MODE: 4 YEARS
- 4 YEARS OR LESS: 16 STORES

- DISTRIBUTORS

- RANGE: 1-12 YEARS
- MEDIAN: 3 YEARS
- MODE: 3 YEARS
- 4½ YEARS OR LESS: 8 DISTRIBUTORS

- The space allocation for the retail stores, shown in Exhibit III-2, represents the primary use of the space.
- Space was frequently used for several functions; e.g., selling areas converted into classrooms in the evening, or inventory was stored in the maintenance area.

E. STAFF

I. RETAILERS

- Independent and franchise stores were generally too small to have managers or assistant managers apart from the owners.
- Eighty-six percent of these stores had actively participating owners.
- The small store groups required managers in all stores but one and generally even the main store had a manager.
- Since stores are small and the owners were generally active, there is little need for more than one or two full-time inside sales personnel.
- Part-time salespeople are used during holiday seasons - usually knowledgeable high school or college students.
- Outside sales personnel in retail stores were full time whenever used, with only one exception.
- Half of the independent stores and 60% of the store groups used outside salespeople.
- Outside sales personnel were used to call on small businesses.

EXHIBIT III-2

RETAIL FLOOR SPACE USAGE

- DISPLAY/SALES SPACE
 - RANGE: 10-80%, MEDIAN: 50%
- INVENTORY/STORAGE SPACE
 - RANGE: 7-40%, MEDIAN: 15%
- OFFICE SPACE
 - RANGE: 10-25%, MEDIAN: 17.5%
- REPAIR/MAINTENANCE SPACE
 - RANGE: 8-30%, MEDIAN: 15%
- TRAINING SPACE
 - RANGE: 5-20%, MEDIAN: 10%

- These salespeople, in addition to finding new customers, were frequently used to sell additional equipment to businesses that bought systems by coming into the store.
- Programming was frequently the forte of one or more of the owners.
 - Of the twelve stores that had programmers, five had part-time programmers only.
 - Thirteen stores had separate maintenance personnel, of which five used part-timers only.

2. DISTRIBUTORS

- Independent distributors had large staffs, generally with the full range of personnel.
 - More emphasis was placed on outside sales than inside sales.
 - Few had programmers, but they did have good service staff, especially the terminal distributors.

F. SALES SUMMARY

- All independent stores reported increasing sales in general during their years in business.
 - Exhibit III-3 illustrates this trend by showing the mid-points of the sales ranges of the best store, the worst store and the average store in the sample.

EXHIBIT III-3

SALES SUMMARY - INDEPENDENT STORES

SALES	(\$ THOUSAND)			
	1977	1978	1979	1980 EST.
BEST	\$375	\$1,250	OVER \$2,000	OVER \$2,000
WORST	175	175	375	375
AVERAGE	375	500	650	825

- Store groups generally reported sales of over \$2 million in 1980 for all stores in the group.
 - Store group sales were generally higher than independent stores, as might be expected. Only very successful independent stores would have the capital to expand.
- The franchise store respondents would not provide sales data.

G. REVENUE DISTRIBUTION

I. RETAILERS

- Store owners rarely did a detailed analysis of their revenue sources.
 - The averages presented in Exhibit III-4 represent the owners' best guess of their revenue sources. (Only those respondents reporting income from the indicated source were included in these averages.)
- Virtually no change in revenue distribution occurred between 1979 and 1980.
 - As the customer base increases the sale of supplies to this base may increase. However supplies are heavily discounted and easily available through mail order houses.
- The retailers that felt software sales was going to be a significantly increasing source of revenue were those that had significant sales to education.
- Two stores currently sell over 50% of their products to home/hobbyists.
 - For the others, the figure is under 30%.

EXHIBIT III-4

RETAILERS' REVENUE DISTRIBUTION

RETAILER	1979	1980
HARDWARE	75%	75%
SOFTWARE	15	15
EDUCATION	5	5
SERVICES	10	10
OTHER (SUPPLIES)	10	12

- During the next three years store owners expect only small shifts in the size categories of the businesses to which they sell.
 - Most stores derived over 50% of their revenues from businesses with under 100 employees.
 - Two stores currently sell most of their products to very large businesses.
 - There is expected to be some shift of hobby business to education.

2. DISTRIBUTORS

- Distributors' revenue is more strongly hardware-dependent than the retailers', as shown in Exhibit III-5.
 - Distributors show no training revenue.
 - These numbers are heavily influenced by the terminal distributors, who only sell hardware.
- The computer distributors sell only to resellers, with very minor exceptions.
- The terminal distributors have been traditionally called distributors because of the large quantities of terminals they handle.
 - Their primary customers, however, are business end users with over 20 employees.

H. STORE EXPANSION

- The independent store owners are planning moderate growth during the next three years.

EXHIBIT III-5

DISTRIBUTORS' REVENUE DISTRIBUTION

DISTRIBUTOR	1979	1980
HARDWARE	85%	85%
SOFTWARE	15	15
EDUCATION	0	0
SERVICES	10	10

- Seven owners plan no expansion in this time frame.
- An owner of a single store is planning to open three new stores in 1981 and hopes to expand to 200 in 1983.
- The other three owners have the following growth plans:
 - . One store in 1981.
 - . Two stores in 1981.
 - . Five stores between 1981 and 1984.
- Three out of five store groups are not planning any expansion during the coming three years.
 - The expansion plans for the other two groups are:
 - . A two-store group planning a third.
 - . A four-store group planning to open five more outlets.
- This four-store group is interesting. Three stores are in the Washington, D.C. area and the fourth is Johannesburg, South Africa.
 - The five expansion stores will be distributed as follows:
 - . One store in Paris.
 - . One store in London.
 - . One store in Capetown, South Africa.
 - . Two stores in Philadelphia, Pennsylvania.

I. FINANCIAL PROFILE

- An excellent financial profile of an early retail computer store was presented at the Personal Computer Forum in May 1980.
- This profile, summarized in Exhibit III-6 provides a good picture of the kind of money involved in a retail operation.
 - The dip in gross sales in 1978 was due solely to the introduction of the TRS-80 by Radio Shack.
 - The net worth figures reflect an estimate of the amount of cash that could be generated if everything was sold off at that point in time. The initial \$50,000 was the amount of seed money scraped together by the partners to start the operation.

EXHIBIT III-6

A RETAIL STORE'S FINANCIAL PROFILE

- GROSS SALES:

-	1976	\$550,000
-	1977	\$900,000
-	1978	\$750,000
-	1979	\$825,000

- TYPICAL MONTH:

-	SALES	\$70,000
-	COST OF GOODS	\$52,000
-	EXPENSES	\$13,000
-	PROFIT BEFORE TAXES	\$ 5,000

EXHIBIT III-6 (CONT.)

A RETAIL STORE'S FINANCIAL PROFILE

- FINANCIAL SNAPSHOT - MAY 1980.

-	INVENTORY	\$135,000
-	A/P	\$ 10,000
-	A/R	\$ 15,000
-	CASH	\$ 20,000
-	FIXED ASSETS	\$ 40,000

- NET WORTH

-	1976	\$ 50,000
-	1977	\$100,000
-	1978	\$140,000
-	1979	\$170,000
-	1980	\$200,000

IV PRODUCTS

IV PRODUCTS

A. SYSTEMS

- The systems that can be configured are a function of the packaged computer carried and the peripherals that can be interfaced with it.
 - The driving force is the packaged computer, and those shown in Exhibit IV-1 were the most frequently mentioned within the \$1,000 to \$6,000 range.
 - Other brands carried that received fewer mentions or were beyond \$6,000 for a basic useful system include: ADDS, Altos, Cado, DG, DEC, Durango, Epson, ECT, Exidy, Godbout, ISI, Intertec, PIC Evolution, S-D Systems, Southwest Technology, Thinker Toys, Zenith.
- The systems mix that a particular retailer carries is important because it shows which market elements the store is attempting to attract and also which brands are felt to draw traffic.
 - Exhibit IV-2 illustrates the competitive systems carried by four "typical" retailers.
 - Retailer 2 in Exhibit IV-2 claims to carry TI because it is a name that will attract consumers and is known to businessmen, but

EXHIBIT IV-1

SYSTEMS CARRIED

MANUFACTURER	NUMBER OF MENTIONS	
	STORES	DISTRIBUTORS
APPLE	17	5
COMMODORE	9	3
CROMEMCO	6	1
TEXAS INSTRUMENTS	6	5
ATARI	4*	4
DYNABYTE	4	2
HEWLETT-PACKARD	4	1
OHIO SCIENTIFIC	4	2
VECTOR GRAPHICS	3	1

* INCLUDES MASS MERCHANDISER

EXHIBIT IV-2

RETAILERS' SYSTEMS MIX

DISTRIBUTER	SYSTEMS
1.	APPLE CROMEMCO EXIDY HEWLETT-PACKARD
2.	APPLE ATARI COMMODORE TEXAS INSTRUMENTS
3.	COMMODORE EXIDY GODBOUT THINKER TOYS VECTOR GRAPHICS
4.	COMMODORE CROMMECO DYNABYTE

system performance is so slow that it is easy to switch the customer to another system. This retailer projects no TI sales in 1980 or 1981.

- The system mixes shown for four distributors in Exhibit IV-3 reflects those products that were generally available through distributors. It is distorted in that Apple is no longer carried by distributors and that will leave a big gap in the distributor's sales picture.
 - Distributor 3 in Exhibit IV-3 has taken on the Zenith line, which it hopes will replace the Apple. However, it will probably take a long time for the demand to build up to shipments of 10,000 Zenith systems in a year, which would equal the number of Apples shipped in 1979.

B. UNIT SALES

- In 1980 the retail respondents in this study averaged about 160 system sales per store - about double their average in 1979.
 - For 1981 the retailers project a 50% sales increase to about 250 systems per store, as shown in Exhibit IV-4.
- The distributors were separated into two groups: Those that are primarily computer distributors selling to retailers, and those that primarily sell terminals to end users and are just beginning to take on computer product lines. These latter are called distributors because they buy in large quantities, (and were the first group in the computer industry to buy hardware in bulk), add little or no value and then resell the equipment. These terminal distributors frequently sold or leased terminals in quantity to large companies that distributed the terminals throughout their corporation themselves. These distributors usually don't sell to resellers.

EXHIBIT IV-3

DISTRIBUTORS' SYSTEMS MIX

DISTRIBUTER	SYSTEMS
1.	APPLE CROMEMCO TEXAS INSTRUMENTS (CALCULATORS)
2.	APPLE ATARI TEXAS INSTRUMENTS
3.	APPLE DATA GENERAL DURANGO ZENITH
4.	ALTOS ATARI COMMODORE INTERTEC

EXHIBIT IV-4

RETAILERS' SYSTEMS SALES

RETAILER	1979		1980 EST.		1981 PROJ.	
	SYSTEM SALES	NUMBER OF STORES REPORT-ING	SYSTEM SALES	NUMBER OF STORES REPORT-ING	SYSTEM SALES	NUMBER OF STORES REPORT-ING
INDEPENDENT	556	6	925	6	1,020	5
FRANCHISE	5	1	20	1	40	1
STORE GROUP	110	1	514	2	915	2
TOTAL	671	8	1,459	9	1,975	8
AVERAGE PER STORE	84	-	162	-	247	-

- The terminal distributors interviewed in this study were larger and were in business longer than the computer distributors interviewed.
- The unit sales for the largest distributors of each type interviewed are shown in Exhibit IV-5 and Exhibit IV-6.
 - The unit sales figures in these exhibits are the largest totals for individual distributors. For example, the responding distributor who shipped the most Centronics printers is listed in the exhibit.
 - As mentioned before, the computer distributor showing 9,000 Apples sold is very concerned about the Zenith sales making up for the loss of the Apple.
 - The Soroc product line is being dropped in 1980.
 - Apple floppy disk drives were sold in a ratio of greater than one drive per computer.
 - The Corvus small hard disk drive is production-limited. The distributor stated that all that could be delivered by Corvus could be sold.
 - Only one distributor had a software package that sold in sufficient quantities to merit mentioning.
- The terminal distributor used for illustrative purposes in Exhibit IV-6 is expanding to handle a wide range of computer systems in response to requests from customers.
 - Apple is forcing the distributor to open a retail outlet.
 - The distributor is taking on the full HP product line from the HP 85 through the HP 3000.

EXHIBIT IV-5

COMPUTER DISTRIBUTORS'
UNIT SALES

MANUFACTURER	1979	1980 EST.	1981 PROJ.
● SYSTEMS			
- APPLE	10,000	9,000*	-
- ZENITH	-	1,000	-
- ATARI	-	400	1,000
- INTERTEC	-	250	700
● CRT DISPLAYS			
- DATA GENERAL	300	500	
- ZENITH	-	500	-
- TELEVIDEO	-	100	1,000
- SOROC	-	250	- 0
● PRINTERS			
- CENTRONICS	375	1,000	1,200
- IDS	-	1,000	1,350
- TREND COM	-	1,500	3,000
- DIABLO	-	300	2,500
- C. ITOH	-	-	1,000

*NOT CARRIED BY DISTRIBUTOR AS OF 9/26/80.

EXHIBIT IV-5 (CONT.)

COMPUTER DISTRIBUTORS'
UNIT SALES

MANUFACTURER	1979	1980 EST.	1981 PROJ.
<ul style="list-style-type: none"> ● FLOPPY DISK DRIVES <ul style="list-style-type: none"> - APPLE ● HARD DISK DRIVES <ul style="list-style-type: none"> - CORVUS ● SOFTWARE <ul style="list-style-type: none"> - PROFESSIONAL SOFTWARE, INC. (WORD PROCESSING FOR COMMODORE) 	-	12,000	-
	-	50	500
	-	500	1,000

EXHIBIT IV-6

TERMINAL DISTRIBUTORS' UNIT SALES

MANUFACTURER	1979	1980 EST.	1981 PROJ.
● CRT DISPLAYS			
- DIGITAL EQUIPMENT	1,000+	1,000+	1,500
- LEAR SIEGLER	600	800	1,000
- HAZELTINE	250	350	450
- VISUAL	230	280	300
- BEEHIVE	150	190	200
● PRINTERS			
- DIGITAL EQUIPMENT	1,000	1,200	1,500
- TEXAS INSTRUMENTS	500	750	1,000
- CENTRONICS	120	180	400

- Terminal distributors that currently provide fast delivery, flexible financing and maintenance, service, and are willing to add software and training support, will become the prime distributors of personal computers to the large companies during the next few years.
 - These distributors have the large companies as part of their current customer base.
 - Two of the largest of these distributors are RCA Service Company and General Electric Terminal Leasing Group.
 - The major electronic component distributors are attempting to serve the large companies with terminals and personal computers, but their customer base consists of electronic companies and therefore is not as broad as the terminal distributors'.

C. INVENTORIES

- Both distributors and retailers were very reluctant to give inventory data, so specific responses are shown for both groups.
- A franchised store owner claims to keep an inventory of about \$100,000 worth of equipment at list price.
 - Included in the inventory were:
 - . Two computers.
 - . Five printers.
 - . Four displays.

- Ten disk drives.
- A store group keeps in each store:
 - Four Apple systems - \$10,000 (at list price).
 - Two Commodore Pet systems - \$4,000 (at list price).
- Another retailer keeps four of each of the systems carried in inventory:
 - Four Apples - \$2,400 (at cost).
 - Four Vector Graphic systems - \$16,000 (at cost).
 - Four Cromemco systems - \$12,000 (at cost).
- Four distributors' inventories are shown in Exhibit IV-7, two computer distributors' and two terminal distributors'.

D. STORE PROFILE

- It is useful at this point to sum up all of this store product data by giving a profile of a respondent store owner who was willing to contribute considerable information. The profile given in Exhibit IV-8 is generally typical, with two exceptions:
 - Software contributes more to total revenue than in many other stores.
 - This store shows a greater portion of sales to the education community when compared to other stores. This contributes to the high software

EXHIBIT IV-7

DISTRIBUTORS' HARDWARE INVENTORY

DISTRIBUTOR		UNITS	VALUE AT COST
•	COMPUTER DISTRIBUTORS		
1.	SYSTEMS (DESKTOP)	1,750	\$2,000,000
	PRINTERS	1,200	250,000
	DISPLAYS	150	120,000
	DISK DRIVES	0	APPLE COULDN'T SUPPLY THEM FAST ENOUGH
2.	SYSTEMS (DESKTOP)	200	250,000
	PRINTERS	400	250,000
	DISPLAYS	65	7,500
	DISK DRIVES	10	30,000
•	TERMINAL DISTRIBUTORS		
1.	PRINTERS	150	200,000
	DISPLAYS	50	50,000
	DISK DRIVES	3	4,500
2.	PRINTERS	20	20,000
	DISPLAYS	30	30,000
	DISK DRIVES	5	3,000

EXHIBIT IV-8

STORE PROFILE

ITEM	1979	1980	1981
● REVENUE	\$250-500K	\$500-750K	-
● REVENUE DISTRIBUTION:			
- HARDWARE	75%	60%	-
- SOFTWARE	20	35	-
- EDUCATION	5	5	-
- HOME/HOBBYISTS	50	30	30%
- VERY SMALL BUSINESS	25	30	30
- VERY LARGE BUSINESS	5	5	5
- EDUCATIONAL INSTITUTIONS	20	35	35

EXHIBIT IV-8 (CONT.)

STORE PROFILE

ITEM	1979	1980	1981
● SYSTEM SHIPMENTS:			
- APPLE (+B & H)	120	200	270
- COMMODORE	12	50	75
- ATARI	-	30	?
- TI	0	0	0
● CRT SHIPMENTS:			
- LEEDEX	45	65	75
- SANYO	20	40	50
- VIDCOM	-	10	15
- PANASONIC	-	5	30

EXHIBIT IV-8 (CONT.)

STORE PROFILE

ITEM	1979	1980	1981
<ul style="list-style-type: none"> ● PRINTERS: <ul style="list-style-type: none"> - IDS 20 - EPSON 2 - APPLE - - ALL OTHERS 3 ● FLOPPY DISK DRIVES: <ul style="list-style-type: none"> - APPLE 20 - COMMODORE 1 - PERCOM (FOR TRS-80) 0 			

EXHIBIT IV-8 (CONT.)

STORE PROFILE

- HARDWARE INVENTORY

18 SYSTEMS	\$15,300 (COST)	9 OWNED	9 FLOOR-PLANNED
13 PRINTERS	\$10,400 (COST)	8 OWNED	5 FLOOR-PLANNED
17 DISPLAYS	\$ 3,000 (COST)	17 OWNED	
16 DISK DRIVES	\$ 6,400 (COST)	8 OWNED	8 FLOOR-PLANNED

- FUTURE:

- GET A SMALL BUSINESS PRODUCT LINE.
- OPEN 2 MORE STORES IN 1981.

revenues without showing the comparably high or increasing training revenues that might be expected if business customers had to be trained on applications packages.

- Bell and Howell remarkets Apple systems with educational software under the Bell and Howell name.
 - The Apple shipments shown for the profiled store include the Bell and Howell systems.
- Roughly half of the store's inventory is floor-planned. This is an inventory financing method. Apple Computer has entered into an agreement with ITT Diversified Services to aid retailers with their inventory.
 - Apple pays the first 60 days' financing charges. If the equipment is sold within this time there is no cost to the retailer. After 60 days the retailer pays the interest charges.
 - This provides a big incentive to push Apple systems and to buy Apple peripherals.

E. SOURCES OF PRODUCTS

- Retailers prefer to buy systems and computers from the manufacturer because they receive better prices and better technical support.
 - Many manufacturers minimum order quantities are so low that retailers can buy directly from the manufacturer.
 - Some manufacturers give everybody the same price, so retailers go directly to the manufacturer.

- Franchise stores buy from the franchisor because they usually get a better price using this channel, but they do buy from other sources when necessary.
- Retailers buy independent peripherals from distributors.
 - They buy systems from distributor only when a special product or fast delivery is needed.
- Most (19 of 32) respondents (retailers and distributors) first considered carrying a product after examining it at a trade show or after advertising exposure.
 - For the remaining respondents who answered:
 - The manufacturers called the outlet in six cases.
 - The distributor called the retailer in two cases.
 - In two cases the franchisor carried the line, so the retailer took it.
 - In two cases the distributor or store owner did some market research and then contacted the manufacturer.
- Sixty-three percent of the respondents placed their initial order for a product by calling the manufacturer directly.
 - A distributor was called by the retailer by seven respondents.
 - The manufacturer's salesperson called the outlet in four cases.
 - The distributor's salesperson called the retailer in two cases.

V MARKETING AND SUPPORT

V MARKETING AND SUPPORT

A. MARKETING PLANS

- There are two basic marketing plans required by any organization - one is designed to increase sales to the existing customer base, the other is aimed at increasing the customer base.
 - Many elements of both are the same, such as direct mail campaigns with telephone follow-up.
 - However, an examination of the diverse techniques used by the various respondents shows an interesting range of approaches.
 - There were no real differences in approach based on the type of retailer responding.
- Some of the techniques used by retailers to increase sales to existing customers included:
 - Sponsoring a user group to acquaint existing customers with new products. As an example, a recent users group meeting heard a talk on Pascal, and the store owner expects about six Pascal sales within two weeks. The store owner donates space and bears the cost of mailing, but the group is run by the users.

- Selling software packages at very low cost, forcing the customer to purchase additional hardware in order to use the software efficiently.
 - Using special sales on media, such as disks, paper, etc., to bring customers back into the store.
 - Dedicating a salesperson to follow up on business customers.
 - Turning maintenance visits, which are basically negative visits, into positive ones by directing the customer to the latest in hardware, applications, etc.
- Distributors use less personal approaches to existing customers, including:
 - Using In-Wats lines for easier communicating, in general, and for easier ordering, in particular.
 - Providing a resource library for manufacturers' data sheets.
 - Organizing free seminars on selling techniques and new products.
 - Providing point-of-sale displays, literature and ad sheets in which retailers can insert their own store names and addresses.
 - Developing cooperative advertising programs.
 - Polling the franchise stores monthly on new product needs and especially new product lines.
 - Exhibit V-I shows the reported initial and follow-on retail sales, by the size of the business. These figures are rough averages of the data.
 - The follow-on figures reflect the responses of those who gave numerous answers. Some stores felt that businesses generally bought a full

EXHIBIT V-1

INITIAL AND FOLLOW-ON RETAIL SALES

BY BUSINESS TYPE	INITIAL	FOLLOW-ON
HOME/HOBBYIST	\$ 1,500	\$ 1,000
VERY SMALL BUSINESS (1-19 EMPLOYEES)	3,500	1,000
SMALL BUSINESS (20-99 EMPLOYEES)	4,000	3,000
LARGE BUSINESS (100-1,000 EMPLOYEES)	7,500	4,500
VERY LARGE BUSINESS (OVER 1,000 EMPLOYEES)	10,000	10,000
BY PRODUCT/SERVICE TYPE - FOLLOW ON-SALES ONLY		
TYPE	PERCENT*	
HARDWARE	80%	
SOFTWARE	20	
TRAINING	-	
SERVICES	10	

* ADDS TO MORE THAN 100% DUE TO INDEPENDENT AVERAGING.

system initially and didn't return for additional hardware. Other stores felt that large and especially very large businesses returned to buy additional full systems at the same price as the original.

- Exhibit V-I also analyzes follow-on sales by the type of sale. The total is greater than 100% because each category was averaged independently and not everyone responded in each category.
 - The important aspect is that hardware is currently the major source of follow-on revenue. People are still expanding or upgrading their systems. Software may be the driving force, but for the retailer hardware is of prime importance.
 - This is one of the reasons why retailers stress that new products should be modular in design. The customer will return to add to the system if such additions are easy to purchase and install.
- As important as retaining a customer base is, expanding the customer base is a more rapid means of growing a business and therefore has been given more attention by most retailers.
- Independent retailers are increasingly following the lead of IBM and the franchise stores by placing heavy emphasis on newspaper and radio advertising.
 - Television advertising on local channels is increasing.
- Some other means of spreading the message to targeted audiences include:
 - Providing a low-cost timesharing service and then converting the users to their own system when it is feasible.
 - Running business seminars in the store and in local hotels.

- Featuring special software (sometimes to a specific industry, such as real estate) and contacting the prospects by telephone or direct mail.
- The independent distributor uses similar selling techniques to attract new customers.
 - More emphasis is placed on direct sales using outside salespeople.
 - Distributors also make use of referrals from manufacturers and scan all trade publications for dealer ads.
- A major franchise headquarters qualifies inquirers by telephone and then conducts local follow-up seminars.

B. SUPPORT SERVICES

- The retail store and distributors can provide customer support in three basic technical areas:
 - Programming.
 - Training.
 - Maintenance.

I. TRAINING

- Training is the basic service, since few of a store's customers would purchase a system unless some training were available.
 - Stores generally provide free training initially and frequently on new products.

- Advanced training is given via user groups.
- Distributors provide free training to their retailers on new products, and some distributors provide free sales training seminars.
 - The sales training seminars, sponsored by the manufacturer, are frequently combined with new product training, with the distributor in the region organizing the seminar.
- The major franchise distributor also offers business training for its franchisees.

2. PROGRAMMING

- There are two levels of programming support:
 - Applications programming.
 - Programming assistance.
- All establishments strongly resist taking on a full applications programming task.
 - Those that do have the capability attempt to make it profitable.
 - Only one store does it for free, and then only if it is extremely limited or promotional.
 - Store groups are most active in applications programming. Over half (60%) refer customers to an outside consultant and receive a fee for the referral. The other 40% do the work in-house for a fee.
- Only one distributor respondent does applications programming in-house for a fee. Most refer customers to local stores or to outside consultants.

- Programming assistance - helping customers do their own applications programming, or providing aid when customers are stuck - is offered for free by all types of establishments on a limited basis, using their own personnel.

3. HARDWARE MAINTENANCE

- There are two problem areas faced by retailers and distributors with respect to hardware maintenance:
 - Finding and keeping skilled personnel.
 - Reasonable warranty service or reimbursement from the manufacturer.
- The respondents are willing to spend the money to train maintenance personnel, but only if owners can get some assurance that the trained personnel will remain a sufficiently long time to make it worthwhile.
 - No respondent has incorporated the maintenance group as a separate company and letting the maintenance personnel be part owners of that company.
- Warranty services are performed for free in one of two ways. Either the component is shipped to the manufacturer's repair facility and then returned to the store when fixed; or the store fixes the component, with the manufacturer reimbursing the store according to a fixed schedule.
 - The schedule can be fixed either by an hourly rate or by the type of repair.
 - Apple's reimbursement rates vary by the complexity of the board.
- Most respondents offer maintenance contracts or have personnel available on a per-call basis.

- Most maintenance contracts cost between 1% and 1.5% of the purchase value of the system.
- Most retailers provide in-store maintenance only.
 - Store groups provide both on-site and in-store maintenance.
 - The mass merchandiser interviewed provides depot maintenance only.
 - Distributors provide depot maintenance or no maintenance.

VI DISTRIBUTOR RELATIONS

VI DISTRIBUTOR RELATIONS

A. SUPPORT

- Relationships between retail stores and independent distributors are generally poor.
 - Stores use distributors only when necessary, and the distributors so far have added little value in the distribution chain.
 - Stores claim that manufacturers give better prices, more competent technical support and reasonable marketing support.
- There are very few contracts between stores and distributors.
 - Most stores want the freedom to buy from whomever can provide the product, the best price or the fastest delivery.
 - Stores buy peripherals from distributors and tend to buy processors from manufacturers.
- Stores feel they receive little support from the distributors.
 - Most contact is initiated by the stores. Orders are called in as needed.
 - Distributors provide few sales support materials.

- One store owner complained that the material had the distributor's name on it, instead of providing room for the store owner to insert the store's name. This material therefore was only used when all other pertinent material was exhausted.
- In-WATS lines are occasionally provided for phoning in orders and for emergency questions.
- Some distributors are beginning to offer cooperative advertising programs.
- Retailers frequently use distributors because they can deliver quickly from stock.
 - Delivery times ranged from one day to 40 days. Although 40 days was not very good, the retailer was willing to accept a 30-day delivery period.
 - If the retailer is dealing with a local distributor, his idea of quick delivery is different from a retailer who is dealing with a national distributor using UPS.
 - The retailers pay all freight charges. In other industries the distributor pays the freight on large orders or for "good" customers. There was no indication that these kinds of relationships have been built in this industry yet.
- Distributors and manufacturers usually ship to the retailers on C.O.D. terms.
 - Some distributors and manufacturers require prepayment before shipping the merchandise.
- As stores build up credit ratings and have good histories with their suppliers, they are occasionally put on an open account basis.

- The credit terms are the most important negotiated item between the retailer and either type of supplier.
- Both stores and distributors have some contracts with the manufacturers.
 - The most significant provisions relate to quota levels. Quotas are generally so low that if the store couldn't meet them the store would go out of business.
 - One example is Apple's quota of four systems per month. Any outlet that couldn't sell four systems per month would have to close its doors.
- Distributors must begin to make improvements in their relationships with retailers.
 - The distributors have to be an active, rather than a reactive, force and attempt to establish a positive presence in the retailer's mind.
 - Retailers need sales training, which distributors could supply.
 - Retailers also need user-oriented sales material.

B. WARRANTY AND MAINTENANCE

- The warranty period varies by vendor.
 - The warranty is usually 90 days to the end user.
 - The warranty period among respondents ranged from 90 days to one year.

- Those warranty periods greater than 90 days allowed the system to sit on the shelf for a period of time before delivery.
- Stores like having the income from doing warranty service and wouldn't push level 1 service off to the distributor.
- Some distributors provide level 2 service, but the stores complain about the turnaround time.

C. MANUFACTURERS' DISCOUNTS

- Retailers were perfectly willing to discuss the discounts they received from manufacturers, but they were reluctant to discuss distributors' discounts, indicating that they were nonexistent or weren't worth discussing.
- Manufacturers currently feel that it is best to offer everyone the same price regardless of quantity, as Apple and Texas Instruments do, as shown in Exhibit VI-1.
 - Apple's discount on the processor is 28% in any quantity. An additional 5% per processor is available for each processor in a group of four. For example, if 10 processors are ordered, processors 1-4 and 5-8 will receive a 33% discount, while processors 9 and 10 will carry a 28% discount only. Apple offers 40% on peripherals it manufactures and 25% on peripherals it buys. Apple claims that retailers average 30% on the typical product mix.
 - Computerland headquarters are the only group (other than Bell and Howell) that buys at greater discounts. Computerland sells Apple products to its franchisees at the same price it purchases them from

EXHIBIT VI-1

MANUFACTURERS' DISCOUNTS

MANUFACTURER	DISCOUNT
APPLE	28% PLUS 5%
ATARI	"BIG" DISCOUNT AT 100-UNIT LEVEL
COMMODORE	25% AT 10 UNITS/40%
DYNABYTE	40%
ECT	25% AT 10 UNITS
HEWLETT-PACKARD	30%
SOUTHWEST TECHNICAL PRODUCTS	33% AT 10 UNITS
TEXAS INSTRUMENTS	35% AT 1 TO 10,000 UNITS

Apple, but the franchisees must pay Computerland 8% of total sales. Thus the overall cost to the Computerland store is the same as to the independent retailer.

- Bell and Howell is an Apple OEM and probably buys at a lower price than the retailers.
 - The "big" discount that Atari offers wasn't stated, but the result was clearly mentioned. Retailers, especially store groups, who can buy Atari at the 100-unit level can then retail the product for less money than the independent store can purchase it. Independent stores will tend to drop the Atari line.
 - Commodore discounts were stated as 25% at the 10-unit level, but one terminal distributor who is negotiating to take on the Commodore line was given a contract calling for 40% at any quantity level.
 - Texas Instruments changed to a single discount level of 35% during the last half of 1980. This move was cheered by the independent stores but not liked by the large terminal distributors.
- Comparing the ideal discounts shown in Exhibit VI-2 with actual available discounts illustrates some of the problems in the marketplace.
 - Manufacturers are not providing sufficient margins for a two-tier distribution arrangement.
 - The difference between the retailers' ideal discount and the distributors' ideal discount is 10% - barely enough for the distributors to operate with. In other industries, the distributors usually have at least 20% to live on, and frequently as much as 25-30%. In the television market, which is a discount marketplace, distributors usually get 60% off the suggested list price, and retailers find they can only sell the sets for an average 126% mark-up.

EXHIBIT VI-2

PRODUCT DISCOUNTS

VENDOR	RANGE	AVERAGE
<ul style="list-style-type: none"> ● RETAILER: <ul style="list-style-type: none"> - MINIMUM 12- 33% 24% - AVERAGE 28- 39 33 - IDEAL 35- 50 42 ● DISTRIBUTORS: <ul style="list-style-type: none"> - MINIMUM 0- 40 28 - AVERAGE 25- 50 40 - IDEAL 35- 55 52 		

VII NEW-PRODUCT DECISIONS

VII NEW-PRODUCT DECISIONS

A. CRITERIA FOR THE ACCEPTANCE OF A NEW PRODUCT

- Respondents were asked to identify the five most important considerations for adding a new product to their product mix. In addition, they were asked to select the most important of these five considerations.
 - Several respondents felt all five were equal and wouldn't choose one over the others.
- Grouping the responses into broad categories, the five considerations receiving the largest number of mentions are shown in Exhibit VII-1.
- The pricing structure of the product line received much more attention than any other considerations, yet it wasn't chosen by all types of sellers as the most important consideration.
 - This emphasizes the need for a serious revamping of the discounting structure and quantity levels between the various points of the distribution channel.
- An analysis of the most important criteria selected by all respondents brings the marketing-oriented items to the forefront, with "pricing structure" leading the marketing group, as shown in Exhibit VII-2.

EXHIBIT VII-1

TOP FIVE CRITERIA FOR NEW-PRODUCT ACCEPTANCE

CRITERIA	NUMBER OF MENTIONS
PRICING STRUCTURE	25
APPLICATIONS SOFTWARE AVAILABLE	14
MANUFACTURER'S NAME AND REPUTATION	10
MODULAR, UPWARD GROWTH WITH COMPATIBILITY	10
MARKETING SUPPORT	10
TOTAL	69

TOTAL OVERALL RESPONSES = 131

EXHIBIT VII-2

MOST IMPORTANT CRITERIA FOR NEW-PRODUCT ACCEPTANCE

CRITERIA	PERCENT OF RESPONSES
<ul style="list-style-type: none"> • ALL RESPONDENTS <ul style="list-style-type: none"> - MARKETING <ul style="list-style-type: none"> • PRICING STRUCTURE <ul style="list-style-type: none"> 22% • MANUFACTURER'S REPUTATION <ul style="list-style-type: none"> 14 • MARKET ACCEPTABILITY <ul style="list-style-type: none"> 5 • TERRITORY PROTECTION <ul style="list-style-type: none"> 5 - PRODUCT DESIGN <ul style="list-style-type: none"> • SOFTWARE <ul style="list-style-type: none"> 14 • MODULAR GROWTH PATH <ul style="list-style-type: none"> 8 • S-100 BUS COMPATIBILITY <ul style="list-style-type: none"> 5 	<ul style="list-style-type: none"> 46% 32

EXHIBIT VII-2 (CONT.)

MOST IMPORTANT CRITERIA FOR NEW-PRODUCT ACCEPTANCE

CRITERIA	PERCENT OF RESPONSES
<ul style="list-style-type: none"> ● ALL RESPONDENTS <ul style="list-style-type: none"> - RELIABILITY 3% - TRS-80 COMPATIBILITY 3 - SUPPORT 16% . MARKETING SUPPORT 8 . MANUFACTURER'S SERVICE 3 . PRODUCTION CAPABILITY 3 . TRAINING 3 - OTHER 5 . FINANCIAL STABILITY OF MANUFACTURER 5 	

- The respondents thought Apple compatibility was important, but TRS-80 and S-100 bus-compatibility received some positive ranking.
- Breaking down the most important criteria chosen by type of respondent (retailers versus distributors) points up some differences.
 - Retailers put more emphasis on product design considerations rather than marketing considerations, while the distributors reversed this.
 - Within each group of responses, product design and marketing, there was some consensus.
 - Software and modular growth lead the product design criteria while pricing structure and the manufacturer reputation lead the marketing criteria.
- Grouping all of the mentioned criteria by respondent type identifies the following differences:
 - The independent retailers stressed pricing structure and a modular product line with upward compatibility.
 - The store groups stressed the pricing structure and applications software.
 - The franchised stores were more concerned with the manufacturer's name and reputation, along with the new product line's mesh with the existing lines.
 - The independent distributors are looking for an equitable pricing structure and good marketing support from the manufacturers.
- The modular system growth is a very important design approach for the retailers, especially compared to the single box approach.

- A modular system - easily puggable modules or easily cabled peripherals
 - allows the store to sell additional hardware with very little sales effort. Software can be designed so that extra features require extra hardware. This keeps the customer returning to the store for easily manageable (affordable) hardware and software.
- A modular system is easier for the retailer to maintain. It is also less costly when giving businesses loaners while waiting for a device to be repaired.

B. COMPETITION

- Respondents had definite preferences in terms of competition:
 - While several respondents felt they could effectively compete with the manufacturer-owned store ("his costs are the same as mine"), a tally of the responses shown in Exhibit VII-3 shows that the retailers overwhelmingly do not want to take on the manufacturer's store.
 - The respondents also don't want to compete with the mass merchandisers.
 - Many said they would compete with Sears, Montgomery Ward and Pennys, because they maintain an orderly marketplace, but the respondents wouldn't want to sell against the discounters, such as Caldors, Bradlees and K-Mart. Since there is no legal way of selling to the first group but not the second, the respondents chose not to sell to either.

EXHIBIT VII-3

COMPETITIVE OUTLETS

TYPE OF VENDOR	MANUFACTURER - OWNED STORE		MASS MERCHANDISER	
	YES	NO	YES	NO
OVERALL	14	15	12	17
INDEPENDENT STORES	5	6	4	7
GROUP STORES	1	4	1	4
FRANCHISE STORES	1	2	1	2
INDEPENDENT DISTRIBUTORS	6	2	5	3
FRANCHISE HEADQUARTERS	-	1	-	1
MASS MERCHANDISERS	1	-	1	-

C. MAINTENANCE SERVICE

- Virtually all respondents want to do their own level I, repair service, as shown in Exhibit VII-4, because they:
 - Want the income from the service.
 - Feel that one-day turnaround is an important service they must perform for their customers. If the repair is in their shop under their control, the retailers are more confident than if the system is sitting in a manufacturer's depot.
- If the manufacturer provided the level I repair service under a contract sold by the retailer, the retailer would like a commission ranging from 10-35%, with an average about 25%.
- Some respondents got very emotional when asked for the kinds of maintenance support a manufacturer should provide. The thrust of the replies shown in Exhibit VII-5 is, "If you are going to do something, please do it right."
 - If manufacturers are going to have a maintenance hotline, it is needed 24 hours a day in order for the retailers to provide one-day turnaround. They should also:
 - Have enough phones available during prime time so that the lines are not always busy.
 - Make sure that manuals and documentation are up to date and easily understood by remote personnel at 3am.
 - Provide an accurate parts distribution list and overnight parts delivery.

EXHIBIT VII-4

LEVEL I REPAIR SERVICE

TYPE OF VENDOR	VENDOR PROVIDES	MANUFACTURER PROVIDES; VENDOR SELLS MAINTENANCE CONTRACT	VENDOR HAS NOTHING TO DO WITH IT
INDEPENDENT STORES	10	-	1
STORE GROUPS	5	-	-
FRANCHISE STORES	2	1	-
INDEPENDENT DISTRIBUTOR	3	-	2
FRANCHISE HEADQUARTERS	1	-	-
MASS MERCHANDISER	1	-	-

EXHIBIT VII-5

RANKING OF MANUFACTURER-PROVIDED MAINTENANCE SUPPORT ITEMS

ITEMS	NUMBER OF MENTIONS
24-HOUR HOT LINE SERVICE, ADEQUATE NUMBER OF PHONES ANSWERED BY COMPETENT TECHNICAL PERSONNEL	19
PARTS AVAILABILITY, OVERNIGHT DELIVERY	15
DETAILED, EASY-TO-USE REPAIR MANUALS	13
GOOD, FREE MAINTENANCE TRAINING	12
UPDATED, DETAILED HARDWARE AND SOFTWARE DOCUMENTATION	8
MODULAR PRODUCT DESIGN FOR EASY MAINTENANCE	8
UP-TO-DATE SPARES AND PARTS SUBSTITUTION LIST	7
GOOD REPAIR KITS AND DIAGNOSTIC TOOLS	7

- Discounts on parts are anticipated by all who would expect to buy them. However, one respondent wanted them at cost, which he figured was 80% of the list price.
 - The desired parts discount is in the 40-50% range, as shown in Exhibit VII-6.
- Warranty work reimbursement seems to be an area of contention between the warrantors and the repairers.
 - There is considerable dissatisfaction with the constant haggling that takes place before the retailer gets reimbursed.
 - The manufacturers that reimburse on an hourly basis seem to do more haggling than those who pay on a per-board basis.
 - The satisfactory hourly reimbursement rate shown in Exhibit VII-7 is between \$30 and \$40. Apple pays \$15 for a simple board replacement and \$25 for a more complex board replacement, with the bad boards returned to Apple weekly in a special mailing container.
- The retail stores would like to provide on-site maintenance. The percentage varied by type of retailer, but in all cases well over half of each group was positive in its thinking.
 - The distributors generally would like to leave on-site maintenance to the stores.
- Most respondents would like to do in-store maintenance under contract and would provide loaners, especially to those customers under contract.

EXHIBIT VII-6

PARTS DISCOUNT

- RETAILERS
 - RANGE: 20-80% (AT COST)
 - AVERAGE: 40-45%
- DISTRIBUTORS
 - RANGE: 30-60%
 - AVERAGE: 45-50%

EXHIBIT VII-7

REIMBURSEMENT FOR WARRANTY WORK

- RETAILERS

- RANGE: \$10-75 PER HOUR
- AVERAGE: \$30-35 PER HOUR

- DISTRIBUTORS

- RANGE: \$20-50 PER HOUR
- AVERAGE: \$35-40 PER HOUR

APPENDIX A: QUESTIONNAIRE

DESKTOP COMPUTER DISTRIBUTION CHANNELS

QUESTIONNAIRE

INPUT is currently examining the relationships between computer stores, distributors, and desk top computer manufacturers. Our interest is in systems selling at retail between \$1,000 and \$6,000.

Major emphasis is placed upon the detailed ways each channel member does business with the other. Discounts, margins, sales, personnel, marketing, and support are all of interest in addition to your feelings about the business in general, and your forecasts of the next few years.

In return for your assistance with this research, INPUT will send you a summary of the final study which will enable you to compare your operations to similar businesses. As with all INPUT studies, your company name will be kept strictly confidential at your request.

GENERAL INFORMATION

(D,T) 1. In which of the following categories does your establishment best fit?

- ☐ Independent computer store.
☐ Franchised computer store.
☐ One of a small group of computer stores.
☐ Independent computer distributor.
☐ Manufacturer-owned distributor/store.
☐ Franchise headquarters.
☐ Mass retailer.
☐ Other (please describe: _____).

(D,T) 2. How long has your establishment been in business? _____ Years.

(T) 3. What amount of floor space do you maintain for computer and computer-related products in each of the following categories:

<u>USED FOR</u>	<u>PERCENT OF TOTAL SQUARE FOOTAGE</u>
Display	_____
Inventory/Storage	_____
Offices	_____
Repair/Maintenance	_____
Spare Parts Storage	_____
Training	_____
Other (describe: _____)	_____

4. Do you own, manage or operate other similar establishments?

_____ Yes _____ No

a. If yes, how many? _____

b. If yes, where are these located (cities)? _____

INP

(T) 5. What general business environment best describes your location(s)?

- ☐ Store in strip shopping center.
☐ Store at street level (independent of other tenants).
☐ Store in a mini-mall.
☐ Store in a multi-story mall.
☐ Store in an office building at street level.
☐ Store in an office building on second or higher floor.
☐ Other (please describe: _____).

6. What are your future store growth plans over the next three years (1980-1983)?

<u>LOCATIONS</u>	<u>YEAR PLANNED</u>	<u>TYPE OF FACILITY</u>	<u>PRINCIPLE PRODUCTS</u>
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

(D,T) 7. Please describe your current organization/working staff.

<u>FUNCTION</u>	<u># OF PEOPLE</u>	<u>ALL PRODUCTS FULL TIME/PART TIME</u>	<u>COMPUTER PRODUCTS FULL TIME/PART TIME</u>
Working Owner(s)	_____	/	/
Manager	_____	/	/
Assistant Manager	_____	/	/
Inside Sales People	_____	/	/
Outside Sales People	_____	/	/
Programmer/ Analyst(s)	_____	/	/
Service People	_____	/	/
Training Personnel	_____	/	/
Office Personnel	_____	/	/
Other (describe: _____)	_____	/	/

INPUT

- (D,T) 8. Please estimate the range of total gross sales for your firm for each of the years indicated.

<u>RANGE OF SALES</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980 (ESTIMATE)</u>
Less Than \$100,000	_____	_____	_____	_____
\$100,000-250,000	_____	_____	_____	_____
\$251,000-500,000	_____	_____	_____	_____
\$501,000-750,000	_____	_____	_____	_____
\$751,000-999,000	_____	_____	_____	_____
\$1 Million-1.5 Million	_____	_____	_____	_____
\$1.6 Million-2 Million	_____	_____	_____	_____
Over \$2 Million	_____	_____	_____	_____

- (D,T) 9. How were 1979 revenues distributed by product and/or service by percent, and how do you estimate 1980 revenues to be distributed?

<u>REVENUE CATEGORIES</u>	<u>1979 PERCENTAGES</u>	<u>1980 (ESTIMATE)</u>
Hardware	_____ %	_____ %
Software	_____ %	_____ %
Education	_____ %	_____ %
Services	_____ %	_____ %
Other (describe: _____)	_____ %	_____ %
TOTALS	100%	100%

- (D,T) 10. What percentage of your 1979 sales and estimated 1980 sales were made to each of the following type of users?

<u>USER GROUPS</u>	<u>1979</u>	<u>1980 (ESTIMATE)</u>
Home/Hobbyists (non-business applications)	_____ %	_____ %
Very Small Businesses (1-19 Employees)	_____ %	_____ %
Small Businesses (20-99 Employees)	_____ %	_____ %
Large Businesses (100-1,000 Employees)	_____ %	_____ %
Very Large Businesses (More than 1,000 Employees)	_____ %	_____ %
Other (Describe) _____	_____ %	_____ %
 TOTALS	 100%	 100%

- (D) 11. What is your anticipated distribution by percent of user groups from 1981 through 1983?

	<u>1981-1983</u> <u>% OF REVENUE</u>
Home/Hobbyists (non-business applications)	_____ %
Very Small Businesses (1-19 Employees)	_____ %
Small Businesses (20-99 Employees)	_____ %
Large Businesses (100-1,000 Employees)	_____ %
Very Large Businesses (More than 1,000 Employees)	_____ %
Other (Describe) _____	_____ %
 TOTAL	 100%

- (D,T) 12. Please list the brands, their source, and unit sales for the years 1979, 1980 (estimated) and 1981 (projected) for each of the following hardware products.

COMPLETE SYSTEMS

<u>BRAND</u>	<u>SOURCE*</u>	<u>ACTUAL 1979 (UNITS)</u>	<u>ESTIMATED 1980 (UNITS)</u>	<u>PROJECTED 1981 (UNITS)</u>

CRT DISPLAYS

<u>BRAND</u>	<u>SOURCE*</u>	<u>ACTUAL 1979 (UNITS)</u>	<u>ESTIMATED 1980 (UNITS)</u>	<u>PROJECTED 1981 (UNITS)</u>

* SOURCE - NAME OF MANUFACTURER OR DISTRIBUTOR.

INPU

PRINTERS

<u>BRAND</u>	<u>SOURCE*</u>	<u>ACTUAL 1979 (UNITS)</u>	<u>ESTIMATED 1980 (UNITS)</u>	<u>PROJECTED 1981 (UNITS)</u>

FLOPPY DISKS--5 1/4 INCH

<u>BRAND</u>	<u>SOURCE*</u>	<u>ACTUAL 1979 (UNITS)</u>	<u>ESTIMATED 1980 (UNITS)</u>	<u>PROJECTED 1981 (UNITS)</u>

FLOPPY DISKS--8 INCH

<u>BRAND</u>	<u>SOURCE*</u>	<u>ACTUAL 1979 (UNITS)</u>	<u>ESTIMATED 1980 (UNITS)</u>	<u>PROJECTED 1981 (UNITS)</u>

* SOURCE - NAME OF MANUFACTURER OR DISTRIBUTOR.

OTHER SIZES

<u>BRAND</u>	<u>SOURCE*</u>	<u>ACTUAL 1979 (UNITS)</u>	<u>ESTIMATED 1980 (UNITS)</u>	<u>PROJECTED 1981 (UNITS)</u>

HARD DISKS--5 $\frac{1}{4}$ INCH

<u>BRAND</u>	<u>SOURCE*</u>	<u>ACTUAL 1979 (UNITS)</u>	<u>ESTIMATED 1980 (UNITS)</u>	<u>PROJECTED 1981 (UNITS)</u>

HARD DISKS--8 INCH

<u>BRAND</u>	<u>SOURCE*</u>	<u>ACTUAL 1979 (UNITS)</u>	<u>ESTIMATED 1980 (UNITS)</u>	<u>PROJECTED 1981 (UNITS)</u>

* SOURCE - NAME OF MANUFACTURER OR DISTRIBUTOR.

INPU

HARD DISKS--14 INCH

<u>BRAND</u>	<u>SOURCE*</u>	<u>ACTUAL 1979 (UNITS)</u>	<u>ESTIMATED 1980 (UNITS)</u>	<u>PROJECTED 1981 (UNITS)</u>

OTHER SIZES

<u>BRAND</u>	<u>SOURCE*</u>	<u>ACTUAL 1979 (UNITS)</u>	<u>ESTIMATED 1980 (UNITS)</u>	<u>PROJECTED 1981 (UNITS)</u>

PROCESSORS

<u>BRAND</u>	<u>SOURCE*</u>	<u>ACTUAL 1979 (UNITS)</u>	<u>ESTIMATED 1980 (UNITS)</u>	<u>PROJECTED 1981 (UNITS)</u>

* SOURCE - NAME OF MANUFACTURER OR DISTRIBUTOR.

DEDICATED WORD PROCESORS

<u>BRAND</u>	<u>SOURCE*</u>	<u>ACTUAL 1979 (UNITS)</u>	<u>ESTIMATED 1980 (UNITS)</u>	<u>PROJECTED 1981 (UNITS)</u>

OTHER MAJOR PRODUCTS

<u>BRAND</u>	<u>SOURCE*</u>	<u>ACTUAL 1979 (UNITS)</u>	<u>ESTIMATED 1980 (UNITS)</u>	<u>PROJECTED 1981 (UNITS)</u>

* SOURCE - NAME OF MANUFACTURER OR DISTRIBUTOR.

INPUT

(D) 13. Please describe your marketing plan for selling additional products and/or services to existing customers.

(D,T) 14. Please describe your marketing plan for selling products and/or services to a new user base.

(T) 15. What is the average initial sale and the average follow-on sale to the following user groups?

	<u>INITIAL SALE \$</u>	<u>FOLLOW-ON SALE \$</u>
Home/Hobbyist (no business application)	_____	_____
Very Small Business (1-19 Employees)	_____	_____
Small Business (20-99 Employees)	_____	_____
Large Businesses (100-1,000 Employees)	_____	_____
Very Large Businesses (More than 1,000 Employees)	_____	_____
Other. Please describe _____	_____	_____
_____	_____	_____

15A. What percent of the follow-on sale is usually hardware, software, training or services?

Hardware	_____ %
Software	_____ %
Training	_____ %
Services	_____ %

- (D,T) 16. What inventory levels are carried by each location for the following products?

PRODUCT CATEGORY	TYPE	# OF LOCATIONS	UNITS	\$ VALUE	OWNED	OTHER
Complete System						
Dedicated Word Processor						
Desk-top Systems						
Printers						
Displays						
Disks						

SERVICES

- (D) 17. Which services do you provide to your customers?

<u>TYPE OF SERVICE</u>	<u>FREE</u>	<u>FEE</u>	<u>LOCATION</u>	<u>OTHER CENTRAL LOCATION</u>
Application Programming	_____	_____	_____	_____
Programming Assistance	_____	_____	_____	_____
Training	_____	_____	_____	_____
Hardware Maintenance	_____	_____	_____	_____
Other (describe: _____)	_____	_____	_____	_____

18. Are these services provided by your own personnel?

_____ Yes _____ No

- a. If no, what services are provided by others?

<u>TYPE OF SERVICE</u>	<u>WHO PROVIDES</u>	<u>LOCATION</u>	<u>COST</u>
Application Programming	_____	_____	_____
Programming Assistance	_____	_____	_____
Training	_____	_____	_____
Hardware Maintenance	_____	_____	_____
Other (describe: _____)	_____	_____	_____

INPUT

SOURCE OF PRODUCTS

(D,T.) 19. What first prompted you to consider the particular computers you now sell?

	<u>BRAND 1</u>	<u>BRAND 2</u>	<u>BRAND 3</u>
Sales Call By Manufacturer	_____	_____	_____
Sales Call By Distributor	_____	_____	_____
Franchise Line Offered	_____	_____	_____
Other (Trade Show, Advertisement)	_____	_____	_____

(D,T) 20. How was your initial order placed?

	<u>BRAND 1</u>	<u>BRAND 2</u>	<u>BRAND 3</u>
With Manufacturer's Representative On His Visit	_____	_____	_____
With Distributor Salesman On His Visit	_____	_____	_____
Your Call-in To Manufacturer	_____	_____	_____
Your Call-in To Distributor /Franchisor	_____	_____	_____
Other (describe: _____)	_____	_____	_____

(D,T) 21. Do you have a contract for products/services with:
(Can you please send us a blank copy of the contract)

	<u>BRAND 1</u>	<u>BRAND 2</u>	<u>BRAND 3</u>
Manufacturer	_____	_____	_____
Distributor	_____	_____	_____
Other (describe: _____)	_____	_____	_____
No Contract	_____	_____	_____

(T) 22. Do you make repeat purchases of the products you sell directly from manufacturers, through distributors only or from both?

<u>PURCHASE FROM</u>	<u>BRAND 1</u>	<u>BRAND 2</u>	<u>BRAND 3</u>
Manufacturers Only	_____	_____	_____
Distributors Only	_____	_____	_____
From Both	_____	_____	_____

INPUT

23. Are you satisfied with this arrangement?

_____ Yes

_____ No

a. If no, why not?

(D,T) 24. Which do you consider to be your most important computer line?
_____ Brand 1, _____ Brand 2, _____ Brand 3

a. Why?

(D,T) 25. Would you prefer buying from another source?
_____ Yes _____ No

a. If yes, what would your preferred source be and why?

(T) 26. Do you use more than one distributor?

_____ Yes

_____ No

a. If yes, why?

27. Name the distributor which provides your most important computer product line.

28. Describe the sales support you receive from distributors.

<u>SUPPORT CATEGORY</u>	<u># OF ON-SITE CALLS</u>	<u># OF PHONE CALLS</u>
Salesman's Calls	_____	_____
Service Representative's Calls	_____	_____
Support Personnel Calls	_____	_____
Other (describe: _____)	_____	_____

28A. Do your distributor's salesmen make direct calls to your customers?
YES _____ NO _____

29. How effective are these calls by type?

- a. Salesman's call:
- b. Service representative's calls:
- c. Support personnel calls:
- d. Other (please describe and comment):

(T) 30. How could the effectiveness of sales support from distributors be improved?

- a. Salesman:
- b. Service representative:
- c. Support personnel:
- d. Other (please describe and comment):

- (T) 31. Do you anticipate any significant changes occurring in the support provided by distributors to you within the next three years?

_____ Yes _____ No

a. If yes, please describe.

b. How will these changes impact your business during this period?

- (T) 32. Do your distributors provide a "hot-line" service either to you or to your customers?

_____ Yes _____ No

a. If yes, describe its purpose and effectiveness, and tell us who pays for the service.

- (T) 33. What types of sales support materials are provided to you by distributors?

T)

34. Are you charged for these materials?

_____ Yes

_____ No

a. If yes, how are the costs calculated?

b. If none are provided, what materials or support do you use in their absence?

35. Describe the educational support materials provided by your distributor.

<u>COURSE NAME</u>	<u>FORMAT, CLASS LITERATURE, ETC.</u>	<u>TYPE OF AUDIENCE OWNER OF BUSINESS/ SALES STAFF</u>	<u>TIME PERIOD</u>	<u>TRAINING LOCATION</u>
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____

(T)

36. What improvements do you think are required in the areas of sales support and support materials?

INPUT

DISTRIBUTOR ORDERS

- (T) 37. How do you normally re-order products which are currently in your line from your most-used distributor?
- a. _____ Committed to an acceptance schedule.
 - b. _____ Call in orders as needed (to Sales or Order Department).
 - c. _____ Place orders with salesman who visits.
 - d. _____ Place orders with salesman who telephones.
 - e. _____ Place order on-line.
- If "a" what is:
- | | |
|-------------------------------|--------------|
| The schedule period? | _____ months |
| The penalty for changes? | _____ % |
| The penalty for cancellation? | _____ % |
38. For orders not scheduled in advance:
- a. What is the normal delivery time? _____
 - b. If this adequate? _____ Yes, _____ No
 - c. If no, what amount of time do you consider adequate? _____
39. What is the normal method of delivery (e.g., Federal Express, UPS, etc.) _____
- a. Who pays delivery charges? _____
- (T) 40. Does your prime distributor offer quantity discount terms?
- _____ Yes _____ No
- (If no, go to question #46)
- (T) 41. Do discounts apply to orders for products of a single vendor only or to orders for products regardless of vendor?
- _____ Individual vendor's products.
- _____ Across vendors.

(T) 42. What are the discount breaks?

	<u>BRAND 1</u>	<u>BRAND 2</u>	<u>BRAND 3</u>
Break Point Volumes/Period	<u> # </u>	<u> # </u>	<u> # </u>
Discount In Percent	<u> % </u>	<u> % </u>	<u> % </u>

43. What measurement bases are used?

- ☐ Beginning commitment.
☐ Prior period's volume.
☐ Other (describe: _____).

44. How is the discount applied?

- ☐ End of designated period.
☐ Prorated per shipment with later debits/credits.
☐ Other (describe: _____).

(T) 45. What is the method used for discount payments?

- ☐ Cash.
☐ Purchase credits.
☐ Other (describe: _____).

(T) 46. What payment terms are available from your prime distributor?

(T) 47. What financial support (if any) is provided to you by distributors (e.g., floor planning, financing of inventory, financing investment in demonstration machines)?

(T) 48. Are any of the terms and conditions negotiable?

_____ Yes _____ No

a. If yes, please describe:

(T) 49. Does your prime distributor modify manufacturer's warranties?

_____ Yes _____ No

a. If yes, please describe:

(T) 50. Is the distributor involved in repair service during the warranty period?

_____ Yes _____ No

a. If yes, please describe involvement:

(T) 51. Is the distributor's repair service satisfactory?

_____ Yes _____ No

a. If no, what is the problem?

D,T) 52. What are the manufacturer's warranty provisions?

Length of warranty: Parts _____ months.
Labor _____ months.
Shelf life allowance _____ months.

D) 53. Are you allowed to return parts beyond warranty for credit?

_____ Yes _____ No

a. If yes, please describe any restrictions and the amount of credit allowed.

b. If yes, is the return for financial credit, parts exchange only, or both?

_____ Financial credit _____ Parts exchange _____ Combination

54. Does your distributor provide post-warranty level 2 repair service? (Level 2 is technical back-up to service provided at the dealer or equivalent level).

_____ Yes _____ NO

- (T) 55. Does your prime distributor have a co-op advertising program?

YES _____ NO _____

If yes:

Up to what sales amount? \$ _____
What percent? _____ %
What media? _____
Does distributor supply copy? YES _____ NO _____

What additional manufacturer co-op advertising exists?

- (D,T) 56. Describe how you would evaluate the distributor's (manufacturer's) advertising.

- (D,T) 57. Do you have territory agreements with your distributors (manufacturers)?

YES _____ NO _____

If yes, please describe.

T) 58. Do you have quota agreements with your prime distributor?

YES _____ NO _____

If yes:

<u>PRODUCT</u>	<u>QUOTA IN UNITS OR DOLLARS</u>			
	<u>MONTHLY</u>	<u>QUARTERLY</u>	<u>SEMI ANNUAL</u>	<u>ANNUAL</u>
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____

T) 59. Please describe any other significant contract provision which exist between you and your distributors?

60. What three major contract provisions would you like to see changed, and how would you like to see them changed between your organization and your prime distributor?

CONTRACT PROVISION

CHANGE FROM:

CHANGE TO:

1. _____

2. _____

3. _____

(T) 61. Do you ever deal directly with manufacturers in lieu of your distributors?

YES _____ NO _____

If yes, under what circumstances?

(T) 62. On a day-to-day basis, would you prefer dealing with your prime distributor or with manufacturers directly?

_____ Distributor _____ Manufacturer

Please explain why.

(T) 63. What is the minimum product discount on computer products that you purchase from distributors?

_____ %

(A) What is the ideal discount? _____ %

(B) What average discount do you receive? _____ %

INPUT

NEW PRODUCT DECISION

- (D,T) 64. If a new personal computer were offered to you for resale, what would be your five most important considerations for adding it to your line?

1. _____
2. _____
3. _____
4. _____
5. _____

- (D,T) 65. Which of these considerations do you consider most important, and why?

- (D,T) 66. Would you be willing to handle such a product if it were also being sold in your territory by:

Manufacturer-owned stores

YES _____ NO _____

Mass merchandise stores

YES _____ NO _____

(T) 67. How would you prefer to see Level I repair service handled? (Level I is service capable of being handled at the dealer or equivalent level)

(A) _____ You provide Level I repair service to your customers.

(B) _____ Manufacturer provides Level I repair service; you sell and receive commission for service contracts.

(C) _____ Manufacturer provides Level I repair service; you do not have any involvement with contracts.

(T) 68. If your answer was (A) or (C) above, what commission arrangements would make choice (B) satisfactory?

(D, T) 69. If you selected (A) above, what would be the five most important support considerations you would require from the manufacturer?

1. _____
2. _____
3. _____
4. _____
5. _____

IF YOU SELECTED (B) OR (C) SKIP TO END

(D, T) 70. At what discount rate would you expect the manufacturer to sell parts to you?

_____ % Retail price.

(D, T) 71. What hourly reimbursement rate would you expect from the manufacturer for warranty work?

_____ \$/hr.

(D,T) 72. Would you provide repair service at the customer site?

YES _____ NO _____

If yes, what percentage of your customers would require repair service at their site?

_____ %

(T) 73. Would you offer repair service contracts for in-store repair? Customer service?

IN-STORE REPAIR

CUSTOMER SERVICE

_____ YES

_____ NO

_____ YES

_____ NO

(T) 74. Would you be willing to provide your customers loaners while customer unit repairs were being made?

YES _____ NO _____

